

July 1, 2002

Mr. Randall Fiertz
Deputy Director, Cost and Performance Management
Federal Aviation Administration
C/o Department of Transportation, Office of the Secretary
Office of the Assistant Secretary for Budget and Programs
400 Seventh Street, SW, Room 10101
Washington D.C. 20590

Docket Clerk
U.S. DOT Dockets
400 Seventh Street, SW
Room PL-401
Washington, D.C. 20590-0001

RE: Interim Rule on Aviation Security Infrastructure Fees
Docket No. TSA-2002-11334
49 CFR Part 1511

Dear Mr. Fiertz,

The air carriers represented in this letter submit the following additional comments on the accounting and audit requirements in the Interim Final Rule on the Aviation Security Infrastructure Fee, 67 Federal Register 7926 (February 20, 2002) ("the Rule"). The air carriers remain committed to meeting their obligations under the Rule, but they need further guidance from the TSA that will give them the ability to meet these obligations. These comments address the specific requirements in Section 1511.9 and TSA Guidance issued on April 29, 2002 ("the Guidance") and recommend the adoption of Agreed Upon Procedures ("AUPs") that address the TSA's objectives.

The Guidance provides in part:

Each air carrier must provide for an audit of Appendix A performed by an independent certified public accountant. The auditor must plan and perform an audit to obtain reasonable assurance as to whether the costs reported in Appendix A are "consistent with the air carrier's financial accounting information reported in accordance with generally accepted accounting principles." The auditor must provide a written letter of opinion on the accuracy of the costs and other information reported in Appendix A, based on the company's pre-existing financial statements and supporting documents, and in accordance with generally accepted auditing standards. This opinion should include a statement as to whether the audited Appendix A is free of material misstatements.

The nature and availability of 2000 cost data and the difficulty/subjectivity in allocating various costs impacts the extent to which the carriers were able to supply the data and the ability of independent CPAs to perform certain review functions. For reasons common to many and/or all of the air carriers represented in

this letter and their respective independent accounting firms, it is not possible to perform an audit as described in Section 1511.9 and the TSA Guidance. According to our independent accounting firms, issues related to testing of subjective allocation methods and validation of historical accounting procedures and internal controls substantially diminish their ability to render an opinion on the air carriers' Appendix A submissions. Specific issues include:

- Passenger and property screening costs for 2000 were not accumulated directly from the air carriers' general ledgers and related accounting records. Significant assumptions and allocations were required to prepare the data in accordance with the cost categories in Appendix A. While these assumptions are reasonable and necessary, in many cases the assumptions and methods were based on subjective inquiry (e.g. interviews) as there was no previous reason to maintain detailed data. Because of the subjective nature of these assumptions and methods, the degree of ambiguity is such that different opinions on the same work product are possible. Consequently our independent accountants will be prevented from rendering an opinion on the costs associated with the screening of passengers and property for 2000 even with extensive, and costly, audit procedures.

For example, under the Interim Final Rule, a vendor payment may be allocated to multiple cost categories in Appendix A that are not representative of an air carrier's general ledger accounts. In addition, the methods of allocating the amount of time contract or airline employees spend on security screening-related activities versus customer service-related activities may be reasonable, but in most cases detailed time cards do not exist to verify the allocation methodology.

- For air carriers that have changed external auditors since 2000, their current external auditors have not performed any audit work on account balances or internal controls relating to the year 2000. Auditors must engage in an extensive review of past accounting and internal controls before they will be in a position to render an opinion on any submissions using 2000 costs as a base.

On the advice of air carriers' independent accountants, the air carriers request that the TSA adopt Agreed Upon Procedures (AUP) upon which auditors will base certain review procedures for air carriers' Appendix A schedule submissions. Utilization of an AUP is consistent with the approach used by the Department of Transportation in its administration of applications for compensation under the Air Transportation Safety and System Stabilization Act. In addition AUPs provide auditors with a roadmap for their work and ensure that the needs of the TSA will be met. Draft AUPs are enclosed for your review.

The air carriers are firmly committed to meeting their obligations under the Rule but need a workable mechanism for doing so. Please note that the August 1, 2002 extended deadline for filing submissions is quickly approaching. The air carriers' independent accounting firms indicate that without AUPs, they are unable to define the scope of the required work. Because of this inability, to date the air carriers have been unable to contract with their respective independent accounting firms to perform the required work. Consequently, we ask that a meeting between the TSA, representatives of the accounting firms and air carriers be scheduled at your earliest convenience to review and discuss adoption of AUPs.

If you require further information, please contact Frances DeBlasio, Manager of Operating Budgets for United Airlines. She may be reached at 847-700-1114 or frances.deblasio@ual.com.

Respectfully,

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Report of Independent Public Accountants on Applying Agreed-Upon Procedures

The Board of Directors and Management of AIRLINE:
City, State

We have performed the procedures listed in Exhibit I, which were agreed to by AIRLINE Corporation (the “Company”) and the Transportation Security Administration of the U.S. Department of Transportation, solely to assist the specified parties in evaluating certain financial data of the Company presented in the attached schedules (collectively the “Schedules”) in connection with the Transportation Security Administration’s *Aviation Security Infrastructure Fees and Assumption of Civil Aviation Security Functions and Responsibilities* [49 Code of Federal Regulations Part 1511]. The Company’s management is responsible for these Schedules, which were prepared by the Company for the purpose of determining fees to be paid to the Transportation Security Administration for providing certain U.S. civil aviation security services. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures listed in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and related findings [and exceptions] are included in Exhibit I and its related Exhibit II. We make no comment as to the reasonableness of the assumptions or methodologies underlying the allocations used by the Company or the reasonableness of the Company’s process to determine that all passenger and property screening costs are included in the Schedules.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accompanying Schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of the Company and the Transportation Security Administration and is not intended to be and should not be used by anyone other than these specified parties.

ACCOUNTING FIRM

DRAFT

July xx, 2002

DRAFT**PROCEDURES**

	Findings		
	No Exception	Exception	N/A
1. Obtain Appendix A to 49 Code of Federal Regulations (CFR) Part 1511 (Appendix A) for the year ended December 31, 2000 submitted to the Transportation Security Administration, from the Company.			
a. Inquire of the Company's management as to whether any cost categories were excluded from Appendix A or aggregated with other line items and obtain written representation from management of the Company of the results of such inquiry.	_____	_____	_____
b. Compare individual line item amounts reported in Appendix A to one of the following (noting in Part A. of Exhibit II the schedule or records to which the amounts were compared):			
i. General ledger, accounting records, or a Company prepared schedule reconciling the amounts directly to the general ledger or accounting records; or			
ii. Directly to a schedule, which summarizes amounts for each applicable category, by station or other component, and describes the supporting documentation used to accumulate the information (Schedule II); or			
iii. For amounts in which allocations are applied, directly to a schedule, that details the allocation methods used and any other supporting information, as well as describes the allocation method and support used to accumulate the other information (Schedule III).	_____	_____	_____
2. Obtain Schedule I from the Company, which lists all the general ledger income statement accounts related to security costs, shows a reconciliation of such amounts to the amounts reported in Appendix A, and describes the reasons amounts included in the general ledger were excluded from Appendix A, and perform the following:			
a. Read the general ledger account titles or descriptions for all income statement accounts and trace those accounts that include "security" in their title to	_____	_____	_____

	Findings		
	No Exception	Exception	N/A
inclusion on Schedule I.			
b. Compare the total general ledger balance as of December 31, 2000 reported on Schedule I to the general ledger.	_____	_____	_____
c. Compare the total costs reported in Appendix A per Schedule I to Appendix A.	_____	_____	_____
3. Obtain Schedule II from the Company, which summarizes amounts for each applicable category, by station or other component, and describes the supporting documentation used to accumulate the information.			
a. Compare the total for each cost category on Schedule II to Appendix A.	_____	_____	_____
b. Select the ten largest stations from Schedule II, based on total costs, by station or other component, for each of the cost categories included on Schedule II for Appendix A.	_____	_____	_____
c. Compare the description of the supporting documentation for each cost category on Schedule II to the appropriate documentation for each station selected in procedure 3.b. (noting in Part A. of Exhibit II the documentation to which the amounts were compared).	_____	_____	_____
4. Obtain Schedule III from the Company, which details the allocation methods used and other relevant supporting information, describes the allocation method and support used to accumulate the other information, and explains the methodology for any station specific allocations, and perform the following:			
a. Compare amounts allocated to Appendix A per Schedule III to Appendix A.	_____	_____	_____
b. Compare amounts to be allocated for each Appendix A category listed on Schedule II to the general ledger, accounting records, or other supporting documentation (noting in Part A. of Exhibit II the schedule or records to which the amounts were compared).	_____	_____	_____

		Findings		
		No		
		Exception	Exception	N/A
c.	Recalculate all allocations explained in procedure 4.a. above based on the Company's methodology.	_____	_____	_____
5.	Prove the arithmetic accuracy of Schedules I through III.	_____	_____	_____

DRAFT

Exhibit II

REQUIRED INFORMATION AND EXCEPTIONS

PART A. REQUIRED INFORMATION

<i>Procedure</i>	<i>Description</i>
1.b.	
3.c.	
4.b	

PART B. EXCEPTIONS

<i>Procedure</i>	<i>Exception</i>

Airline Name
Security Infrastructure Fee
For the year Ended December 31, 2000
Reconciliation of Appendix A to the General Ledger

General Ledger Account	Description	Balance as of December 31, 2000	Amounts Excluded from Appendix A	Total Cost Reported per Appendix A	Explanation regarding excluded costs
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Schedule II

Airline Name
Security Infrastructure Fee
For the year Ended December 31, 2000
Appendix A Non-Allocated Costs by Station or Other Component
[note: you would only list the cost categories that your client reported on in appendix a]

Station/Other Component	Checkpoint Screening Personnel	Checked Baggage Screeners	Supervisor y Personnel	Operating, Operation Maintenance and Testing of Installed Screening Equipment	Total
DFW					
MIA					
JFK					
LAX					
SFO					
BOS					
LGA					
ORD					
SJU					
EWR					
etc....					
etc....					
etc....					
etc....					
Total Cost Per Appendix A	-	-	-	-	-

Airline Name
Security Infrastructure Fee
For the year Ended December 31, 2000
Appendix A Allocated Cost Calculations

<u>Appendix A Category</u>	<u>Description</u>	<u>Amount to be Allocated</u>	<u>Allocation Methodology Description</u>	<u>Allocation Percentage</u>	<u>Total Allocated to Appendix A</u>
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